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# Budget Speech

The Honourable Paul Martin, P.C., M.P.  
Minister of Finance

March 6, 1996

Canada



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Department of Finance  
Canada

Ministère des Finances  
Canada

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## Securing the Future

Mr. Speaker, it is as clear today as it ever has been that Canadians do not want rhetoric from their governments. What they want is action. What they seek is real progress.

These are the standards that Canadians have set. These are the standards by which this government wants to be judged.

Seldom in our history have so many experienced such anxiety.

Canadians feel our very way of life is at risk.

They look at Medicare – and feel it is threatened.

They look at the pension system – and wonder if it will be there in the years to come.

They consider the economy – and worry that the gale force winds of competition and change will carry away their jobs.

And Canadians think about their children, our youth – and ask what kind of opportunities will be left for them.

If there is one obligation before government today, it is to do its part to address these deep concerns.

It is to do what we must so that confidence can overcome anxiety, and hope can replace despair.

In short, we must act now to help Canadians secure their future.

Canadians know this can't be done by government alone.

It will require the concerted efforts of individual citizens, their governments, business and others for our country to tackle these challenges effectively.

What Canadians want from their government is for it to set the goals, to have a plan and then to work as hard as it can – and as long as it must – to help get the job done.



## **Securing our Financial Future**

This budget is our third in a comprehensive and determined effort to restore fiscal health to this country.

In this budget, we are keeping on course. We are maintaining our pace. We are not letting up.

Indeed, this government will never let up. The attack on the deficit is irrevocable and irreversible. Let there be no doubt about that.

We will balance the books. Furthermore, we will put the debt-to-GDP ratio – what we owe as a percentage of what we produce – on a constant downward track, year after year after year.

Nothing – I repeat nothing – will cause this government's conviction to change.

We announced in November that we had bettered our deficit target for 1994-95.

It is now clear that our target for 1995-96 will be achieved – or bettered – and that we are on track for our 3-per-cent target for 1996-97. This is proof of the profound impact of the actions set in motion in our first two budgets.

Today, we will make it clear that our deficit target for 1997-98 – \$17 billion or 2 per cent of GDP – is also secure.

We will hit the 3-per-cent deficit target. We will hit the 2-per-cent target announced last November. Indeed, we are announcing the actions today which will enable us to go beyond those targets, to keep us moving towards budget balance.

To that end, we are further cutting our own departmental spending by almost \$2 billion to take effect in 1998-99. This is over and above the substantial savings secured in our first two budgets.

Most departments will have their budgets cut by at least a further 3.5 per cent in 1998-99; some are cut much more.

Spending on defence and international assistance will be further reduced. The growth of spending on Inuit and Indian programming will be restrained. The dairy subsidy will be phased out over five years and the postal subsidy program reduced.

This budget, together with our last two, will contribute \$26.1 billion in savings to secure our 2-per-cent deficit target for 1997-98, and a further \$28.9 billion of savings for the following year, 1998-99 – to continue the downward deficit track, and to give the debt-to-GDP ratio the downward thrust it needs.

In 1993-94, government spending on programs, that is spending on everything but the debt, stood at \$120 billion. By 1998-99 we will have reduced that to \$105.5 billion. This will mean six consecutive years of absolute decline in program spending.

Measured relative to the size of the economy, the decline is even more dramatic. By 1998-99, program spending will have been reduced to 12 per cent of GDP, down from close to 20 per cent just over a decade ago. In fact, it will be at its lowest level in 50 years.

Because we are focusing on spending cuts, not tax increases, over the three budgets taken together, we will have cut seven dollars in spending for every one dollar in new revenues. In this budget, we are not raising personal taxes. We are not raising corporate taxes. We are not raising excise taxes. In fact, we are not raising taxes.

This government does not rely on tax increases to hit its deficit targets. Nor does it rely on rosy forecasts.

We are maintaining the prudent approach we have adopted from the very beginning. Our economic assumptions are once again deliberately more cautious than those of most private sector forecasters. As before, we are backing up our economic assumptions with substantial contingency reserves. These reserves do not exist to be spent on new programs. They are there to handle unforeseen changes in the economy. If we don't need them, they will not be spent. They will go to reducing the deficit even further.

As we have always said – and as we have now proven – meeting our targets is the least we can do. It is not the best we will do.

One of the pay-offs in hitting these deficit targets is the dramatic decline in the amount of new money the government must borrow on financial markets each year.

This measure, financial requirements, is the way most other major economies – the United States, the United Kingdom, Italy, France and Germany – calculate their deficits.



In 1993-94, the year we came into office, Canada's financial requirements stood at 4.2 per cent of GDP – or \$30 billion. By 1997-98, our financial requirements will drop to only .7 per cent of GDP – or \$6 billion.

Relative to the size of the economy, our borrowing requirements will be at their lowest level in almost 30 years. Measured on this basis, Canada will have the lowest fiscal shortfall projected for any G-7 central government.

Today's fiscal progress is much more than a federal effort. It is a national effort supported by Canadians across the country.

No matter their political stripe, every single province and territory has as a primary goal the return to fiscal health. In fact, eight are expected to report a balanced budget – or even a surplus – for the fiscal year ending this month and the results are striking.

For instance, in 1993, Canadian business and governments borrowed \$29 billion abroad. That was reduced to \$13 billion in 1995 – and will be reduced again next year and the year after that. In short, Canadian economic sovereignty is being restored.

The fact is that in comparison with most other countries – and in the arcane world of statistics – we are doing quite well. However, that being said, in the real world where we all live, we know that despite the gains being made, Canadians continue to worry very deeply. The reason is not hard to identify. Because whatever the numbers might say, many do not see evidence of improvement in their own lives. What they do see is sacrifice. And what they want to know is whether their sacrifice will bring positive results – and when it will end.

Therefore, the job before us is clear. It is to build on the progress we have made, to see it translated into good jobs, sustained growth and social programs suited to the millennium that lies ahead.

This budget is about consolidating the gains we have made. It is about addressing problems before they arise. It is about managing ahead, continuing to put in place new building blocks for security and prosperity.

It will show how we will sustain the federal government's commitment to healthcare and other social programs into the 21st century.



It will put forward a plan to restore confidence in the public pension system.

It will enhance the protection of the most vulnerable in our society.

And it will reallocate spending to invest in the economic future of the country.

In short, as all budgets must be, this is a budget about the present. However, it is also a budget for the future.

## **Principles for Securing the Future**

Canadians want to know that the principles guiding government are ones that they share.

Here are our principles.

First, governments created the deficit burden. And so governments must resolve it – by focusing first in their own backyards – by getting spending down, not by putting taxes up.

Second, our fiscal strategy will be worth nothing if at the end of the day we have not provided hope for jobs and for growth. We must focus on getting growth up at the same time as we strive to get spending down.

Third, we must be frugal in everything we do. Waste in government is simply not tolerable.

Fourth, we must forever put aside the old notion that new government programs require additional spending. They don't. What they do require is the will to shut down what doesn't work and focus on what can. That is why a central thrust of our effort is reallocation. Whether on the spending side or on the revenue side, every initiative in this budget reflects a shift from lower to higher priority areas.

And finally, we must always be fair and compassionate. It is the most vulnerable whose voices are often the least strong. We must never let the need to be frugal become an excuse to stop being fair.

## **A Measured, Responsible Pace**

Let me address directly the issue of the pace of our efforts.

This pace has been constant from the outset. It was established deliberately. We will not alter it.

It is our view that chronic deficits constitute a clear and present danger to this country – to our way of life, to our future.

Chronic deficits put the disadvantaged at risk, because it is they who suffer when the financial strength of government is so weak it can no longer reach out to those in need.

However, that does not mean we share the view of those who think we should be going to a zero deficit overnight.

The fact is, draconian budgets are not difficult to write. The arithmetic is painless. But the human consequences are not.

In our view, durable progress requires adaptation, adjustment and understanding. A measured strategy lets that happen.

A measured pace ensures that short-term savings will become long-term savings – a downpayment towards restored fiscal health. Indiscriminate cutting, on the other hand, raises the real risk that short-term savings will become long-term costs.

Our goal is to get the deficit down permanently – not temporarily. We want to solve the problem once and for all. This requires considered and careful reform.

We will balance the books. But we will do so in a way that is measured, deliberate, and responsible. That is our plan. That is our course.

This is a question of costs and consequences. But so too it is a question of values. We simply do not believe it is necessary to toss aside fairness in the quest for fiscal success. That has not been the hallmark of this country. And it will not be the legacy of this government.

## **A Focused, More Affordable Government**

We have always made it clear that while fiscal progress is crucial, equally important is the redesign of government itself.

What we need is a government that not only spends less money – but spends more wisely.

If there is one area where we must never let up, it is the effort to root out waste and inefficiency.

Government should be focused on the needs of citizens – not the needs of bureaucracy. Canadians want their governments to co-operate, not compete. And they want better service delivered at lower cost.

One of the best ways to reduce cost is to reduce overlap and duplication. This was one of the goals inherent in our Program Review exercise led by the current President of the Treasury Board.

Surely we can all agree that it is simply silly for a food processing plant to have a federal meat inspector, a federal health inspector, a federal fish inspector, not to mention a provincial health inspector and a provincial food inspector tripping over themselves on the same day, in the same plant, doing essentially the same thing.

And what small business has not had the experience of a federal income tax auditor, followed by a federal sales tax auditor, followed by a provincial corporate tax auditor, followed by a provincial retail sales tax auditor – all asking for the same material organized in a slightly different way?

This sort of duplication wastes businesses time and government resources. We want to put an end to such waste.

Therefore, legislation will be introduced that will allow for the creation of fewer, more effective government agencies.

One of these, for instance, will be a Single Food Inspection Agency that will consolidate the activities currently spread around several federal departments. This in turn will allow us to offer a new partnership with the provinces, which would lead to a more efficient, joint food inspection system.

We will also create a national revenue agency to be called the Canada Revenue Commission. The creation of the commission will facilitate the development of a closer partnership with the provinces in revenue administration.

Canadians know full well that there is only one taxpayer. A number of provinces have asked us why shouldn't there be, as well, only one tax collector?

In the same vein, we are working very hard to replace the federal sales tax.

We believe this is crucial to increase fairness for consumers and respond to the concerns of small business, while saving taxpayers money through more efficient administration.

We are working with a number of provinces to achieve this end. If successful in getting provincial agreement, the government will take such steps as are necessary to implement harmonization.

In addition, a significant package of measures is being readied to streamline and simplify the federal sales tax.

## **Securing our Social Programs for the Next Century**

### **Restoring Growth to Transfers to the Provinces**

Fiscal health is not an end. It is a means to an end. It gives us the strength to move forward on everything else.

As we continue to address the anxiety of Canadians over the fiscal health of their country, we must also look ahead to address other problems before they arise.

Clearly, one of these priorities must be to preserve and strengthen our social programs for the next century.

These programs – support for health care, for post-secondary education, for assistance to the poor speak to the spirit of our country.

In last year's budget, the Canada Health and Social Transfer was created. It was designed to put federal transfers for these important areas on a sound footing and to allow the provinces more flexibility to better deliver these programs.

In 1997-98, the CHST will be a \$25-billion transfer composed, roughly equally, of tax points and cash.



Since transfers to the provinces and territories represent an important part of our total spending, we could not put federal finances on a sustainable basis without addressing them. That is why, in last year's budget, we announced funding arrangements for the new Canada Health and Social Transfer covering the fiscal years 1996-97 and 1997-98. Those arrangements will remain unchanged.

With the framework of the CHST in place, our challenge – and commitment – is clear.

To provide, as the Prime Minister promised, a long-term funding arrangement for the CHST transfer that is stable, predictable and sustainable.

To this end, we are announcing today a firm funding commitment for the CHST to cover the five-year period from fiscal year 1998-99 through to 2002-03.

For the first two years of that period, we will maintain the overall CHST entitlement – that is, the value of tax points and cash combined – constant at its 1997-98 level of \$25.1 billion.

For the remaining three years of the framework, total transfer entitlements will grow each and every year – at an increasing pace.

In addition, we will provide a legislated guarantee that the cash component of the transfer will never be lower than \$11 billion at any time during this period.

This will put an end to the decline of cash that occurs automatically as the value of the tax component grows. The provinces will benefit, not only from the growing value of the tax component, but from the cash guarantee as well.

Based on an evolving formula tied to economic growth, overall CHST entitlements will increase over this period from \$25.1 billion in 1999-2000 to approximately \$27.4 billion in 2002-03.

As a result of these assurances, Canadians can have confidence that as we enter the next century, the commitment of their national government in support of health care, post-secondary education and assistance to the poor will be intact, and strong.

As part of that, we will remain opposed to the imposition of residency requirements on social assistance recipients who move from one province to another, and we will be steadfast in upholding the principles of Medicare.

This budget also addresses our commitment to provide a new approach to allocating the CHST among provinces – one that addresses the funding disparities resulting from the limits on Canada Assistance Plan transfers imposed on certain provinces by the previous government.

The new allocation will be phased-in during the course of the new five-year transfer arrangement. As a result, current disparities in per capita funding levels among provinces will be reduced by half. We are willing to examine with the provinces further refinements to the allocation that may be appropriate beyond this framework.

Finally, on the issue of healthcare, this budget takes additional action.

The Minister of Health will be announcing the establishment of a Health Services Research Fund under the auspices of The Medical Research Council of Canada. The federal government will provide an unconditional \$65 million over five years. The goal is to bring together governments, health institutions and the private sector to fund research identifying what works best in our medical system, what does not, and what possibilities might exist to improve the efficiency and effectiveness of healthcare.

## **Securing Pensions for Canadians**

One of the greatest advances we have ever made as a country is to provide a decent level of retirement support for our seniors. As a result of our pension system, millions of seniors today enjoy a standard of living that is substantially higher than was the case for their parents. Our obligation today is to take the action necessary to safeguard that accomplishment for our children.

There is widespread anxiety – particularly among the young – that the public pension system will not be there for them when they retire.

Confidence in the pension system must be restored. The party that put pensions in place for this country must now act to preserve them.

The challenge is clear – it is one of sustainability.

First, the CPP must be put on a sound financial footing – and done so in a way that it is sustainable, affordable and fair.

This government does not share the view of those who believe the CPP cannot be fixed, that it should be abandoned. We believe that the right to a secure retirement should be available to all – and not become the preserve only of those who are well-off.

However, the findings of the Chief Actuary make it clear that changes are needed to restore the CPP to health. Clearly, governments should have acted some time ago to address this problem. We believe the role of government that is responsible is to act to prevent problems, rather than letting them become crises. And so, together with the provinces and territories, we will act.

The second pillar of the pension system – Old Age Security and the GIS – is funded out of general government revenues. Here too, rising costs have led to concerns that these public pensions are at risk. Our obligation is to put those concerns to rest.

In our last budget we set out the principles of reform. Today, we are proposing a new Seniors Benefit to take effect in the year 2001. This benefit will be a central element of fulfilling our commitment to Canadians to ensure they have a secure and sustainable pension system now and into the future.

As the Prime Minister has said many times, current seniors have the right to know that their retirement is secure – that they will always get at a minimum what they receive in pension payments today. Our proposal guarantees that. In fact, many seniors will get more.

Furthermore, younger Canadians have the right to know that, in the future, government pensions will be there for them. Our reform guarantees that as well.

This reform will make the pension system sustainable. It will do so by targeting help to those who need it most. And by slowing the rate of growth of public pensions, the danger of crowding-out other essential programs and services is being addressed.

The new Seniors Benefit will be fully tax free – and it will be completely separated from the tax system. It will incorporate the OAS, GIS, pension income credit and age credit.

Furthermore, under the new system, the benefit and the threshold levels will be fully indexed to inflation – an important improvement for all seniors who worry about eroding benefits. The partial indexing of the clawback threshold will cease to be an issue.

The Seniors Benefit will be paid monthly – and in the case of couples, it will be divided equally between each spouse. Each will receive a separate cheque.

This will be a fairer system. It will be based on total income – as the GIS always has been. We believe that since the incomes of low-income couples are currently combined to determine eligibility for additional help, it is also appropriate to combine the incomes of higher-income couples to determine their level of government support.

The new benefit will be designed to fully protect low and modest-income Canadians. Almost all of them will receive slightly more. In fact, all those who currently receive GIS will receive \$120 more per year.

Under the new Seniors Benefit, 75 per cent of seniors will be as well or better off. In fact, most will be better off.

For instance, nearly nine out of ten single senior women will be better off under the new system.

High-income seniors will receive somewhat less. The more income they have from other sources, the less they will receive.

The very highest-income seniors will no longer receive government benefits.

In this House, the Prime Minister has promised Canadians that no current seniors will have their OAS and GIS payments reduced as a result of this reform. In fact, our proposal goes one step further. Not only will the pension benefits of every senior over age 65 today be protected, but so too will the pension benefits of every Canadian who reached age 60 before January 1st of this year – and their spouses, no matter what their age.

The government will give these Canadians a choice of whichever system is more advantageous to them – moving to the new Seniors Benefit five years from now, or maintaining their existing OAS/GIS pensions.

The purpose of this reform is to assure Canadians that the pension system will be there for them in the future, as it has been in the past.

Fairness, sustainability, security: that is what Canadians seek – and that is the hallmark of this new public pension system.



## **Assistance to those in Need**

### ***Increased Support for Children***

The next issue concerns children.

There are many more single-parent households today than ever before. Canadians know that too often the needs and rights of children following family breakdown are not being protected. There is too much hardship, tension and distress resulting from the current child support system. The system has added to the uncertainty and anxiety many Canadians feel.

Our view is that children should be first in line. Child support is the first obligation of parents. It is not discretionary. The government promised to improve the child support system. Today, that action is being taken. The Minister of Justice will be elaborating on these measures in the days ahead.

First, the tax treatment of child support payments is being changed. Currently, child support payments are taxable for the recipient and tax deductible for the person paying. In our view, this is wrong. We believe these payments are there to provide support for children. They are not income for parents.

Therefore, for all new child support awards – and all existing awards that are varied on or after May 1, 1997 – support payments will not be included in the income of the custodial parent for tax purposes nor be tax deductible for the payer. This approach will ensure that the children who need support the most get it, and eliminate the need for complex tax calculation and planning by parents.

Second, the method used for determining levels of child support is being improved. This will result in settlements that are fairer and more consistent. It will reduce conflict between parents and keep money now spent on lawyers and courts in the hands of the parents for the benefit of the child.

Third, a wide range of measures is being introduced to help ensure that child support orders are enforced – that support is paid in full and on time. We are targeting chronic, wilful defaulters. Because enforcement is primarily a provincial/territorial responsibility, these measures are designed to complement and bolster their efforts.

We believe that more should be done to support children.

Therefore, we are increasing the Working Income Supplement under the Child Tax Benefit. This supplement assists low income parents to meet some of the expenses resulting from work – such as child care, transportation and clothing. It also helps make up for the benefits lost by parents who leave social assistance and re-enter the workforce.

The maximum annual benefit is being doubled, in two steps. It will increase from \$500 to \$750 in July of next year and to \$1,000 in July of 1998.

When fully phased-in, this will result in an additional \$250 million support annually to approximately 700,000 low-income working families – one-third of whom are headed by single parents.

Finally, we believe that the current age limit of 14 on the child care expense deduction should be raised to 16 to provide more support to parents – in particular single parents whose jobs require them to be away from home at night.

Next, increasingly large numbers of Canadians are providing in-home care for adult children and other relatives with disabilities. This work is both invaluable and difficult. Therefore, this budget proposes to increase the value of the infirm dependent credit from \$270 to \$400 and to raise the income threshold for the reduction of this benefit from \$2,690 to \$4,103.

A number of groups, including the Standing Committee on Human Rights and the Status of Disabled Persons, have asked that we examine measures, including those in the tax system, that have an impact on people with disabilities. We will examine these issues, because we believe it is important to constantly assess the mechanisms through which we provide assistance to persons with disabilities.

Every day in every community, Canadians give freely of their time and money to support the work of non-profit, voluntary and charitable organizations. These countless acts of individual commitment are a powerful collective response to meeting pressing human needs, especially in this time of fiscal restraint.

Governments must support Canadians in their effort.

Therefore, we are adopting the recommendation of the Standing Committee on Finance and the Canada Council that the annual limit on charitable donations be raised from 20 per cent to 50 per cent of net income. That limit will be increased to 100 per cent for gifts willed to charities – in order to encourage charitable bequests. In addition, to encourage donations in forms other than cash, the limit will be raised to 100 per cent on the portion of a donation of appreciated property that must be included in the donor's taxable income.

Clearly, a case has been made that more can be done.

Therefore, over the next year and in consultation with the charitable sector, we will examine ways of further encouraging charitable giving and charitable activities. We will focus on ways to ensure that increased government support leads to activities of direct benefit to Canadian society.

## **Investing in Our Future**

One of the greatest challenges facing Canadians and their governments is the changing nature of work. Around the world, on every continent, we are facing a revolution whose scope and depth rivals that of the industrial revolution itself.

The contours of that revolution are clear. Distance is losing its meaning, as barriers to trade and investment collapse and communications become instantaneous.

The pace of change is accelerating, as technology makes possible daily what once was only the substance of dreams.

Some see this as a revolution about new opportunity. Others fear it is a revolution about opportunity lost. What we must ensure is that Canada is on the vanguard of this revolution, not one of its victims. We must work together to make sure that the new economy is also an economy with new jobs.

Canadians understand that the jobs of today and tomorrow will come from the thousands of Canadian businesses that are created each and every year.

We agree. So what is the role of government? It is to provide the private sector and all Canadians with a framework for growth, the kind of growth on which job creation depends.

Clearly, despite our problems, the economic climate in this country is getting better.

The nation's balance sheets are improving.

As a result: interest rates have come down 3 percentage points in the last year; inflation is the lowest it has been in 30 years. And Canada's economy is more competitive than ever.

The point is that in this world of globalization, of competition, of rapid change, focusing on getting the fundamentals right is absolutely necessary. But by itself it is not sufficient.

It is in this context that one must view the numbers on job creation, the most important statistic of them all. In the last 13 months, 263,000 private sector jobs have been created. Since November alone, 123,000 such jobs were created, the majority of which were full-time. These are good numbers, but they are not nearly good enough.

The proof lies not simply in the numbers of unemployed, but in the increasing length of time it takes the unemployed to find new work.

The effect of change is felt by every segment of society, in every part of the country, from our biggest cities to our very smallest communities.

For instance, it is clear that rural Canada faces a particularly acute challenge of adaptation. Indeed, while major metropolitan areas are often the focus of attention, it is absolutely essential that we continue to pursue policies to address rural anxiety as well, that we develop policies designed to meet the diverse needs of both urban and rural Canada – needs which remain essential to our economic well-being, our way of life and our future.

In other words, if our future is to be brighter, we must invest in it.

And so, in addition to consolidating our fiscal gains and securing the future of our social programs, we are strengthening three areas of government emphasis that will help Canadians manage towards the future.



Following on the recommendations of the Cabinet Committee on Jobs and Growth, headed by the Minister of Agriculture, we are making strategic investments in our youth, in technology, and in trade.

Let me emphasize, that while we are announcing new initiatives, none of the funding required represents new money. All of it is sourced from a reallocation of existing resources.

The economy of the future will belong to our young people. The success of our economy will depend on them – just as their success will depend on their ability to participate fully in all that the economy has to offer.

There is a clear role for government in helping our young people to prepare for a rapidly changing economy – through the acquisition of the right skills, and the provision of opportunities to gain work experience.

And so, in this budget, we are providing an additional \$165 million over three years, to be funded through reallocation within the tax system, so that students and their families will be better able to deal with the increased costs of education.

First, to recognize the non-tuition costs of schooling, we are increasing the education credits from \$80 to \$100 per month.

Second, in order to support parents or spouses who help underwrite the education costs for students, we are raising the limit on the transfer of tuition and education credits from \$680 to \$850 per year.

Third, to encourage parents to save for their children's education over the long-term, we are proposing to increase the annual limits on contributions to Registered Education Saving Plans (RESPs) from \$1,500 to \$2,000 and the lifetime limit from \$31,500 to \$42,000.

Fourth, as we have said, we are broadening eligibility for the child care expense deduction. This measure will assist parents to undertake education or retraining. Single parents will be allowed the same deductions that today are only available to couples. And for the first time, the child care expense deduction will apply to those completing high school, not only post secondary education.

For our youth, learning is the first step. But increasingly, education alone is not enough. What is required is the opportunity to gain experience on the job.

Therefore, the government is reallocating \$315 million over the next three years from other spending in order to help create youth employment opportunities. This is in addition to our existing funding provided through such programs as Youth Internship Canada and Youth Service Canada.

Some of these new funds will go to substantially increasing our support for student summer employment. Summer employment not only provides young people with the opportunity to earn the money they need to complete their education, it can also supply critical job experience. Therefore, we are doubling our assistance for summer employment for 1996-97 – from \$60 million to \$120 million.

Another part of the \$315 million will be used to assist young Canadians who have left school to find work. Details of these youth initiatives will be provided in the near future by the Minister of Human Resources Development.

We are eager to enter into a new partnership between the public and private sectors to create entry level jobs for the young. Government and business have worked well together on trade, as Team Canada abroad. Let us now – business, labour, educators and government – work together even harder at home, for jobs for our youth.

Our ultimate challenge is to change the very economic culture of the nation – to make Canada one of the most innovative countries in the world.

Some may think that innovation applies to only one small sector of our economy – to those who write software or surf the Internet. Nothing could be further from the truth. This is not about part of our economy. It is about all of our economy – from small business to large business, from coast to coast. From mining and oil and gas, to agriculture and forestry, the application of technology has become essential.

Clearly, it is the job of the private sector to innovate – because it is their survival and growth that is at stake. But government too has an important role – in levelling the playing field against foreign competition, in forming partnerships to invest in areas of basic research, of high risk, and where the scale of investment is simply too large for the private sector itself to carry alone.

To that end, the Minister of Industry will be announcing the creation of Technology Partnerships Canada. This program will encourage the development of environmental technologies, advanced manufacturing and materials as well as bio-technology. It will also help maintain jobs in the aerospace sector – which is subject to very heavily subsidized foreign competition.

This marks an important departure from past practice. Both the risks and rewards will be shared with the private sector. The government's investment should not exceed a third of the total. The emphasis is on partnership – not unilateral federal action. The reallocated resources provided in this budget, together with existing Industry Canada funding, will enable Technology Partnerships Canada to grow to about \$250 million by 1998-99. This will lever substantial, additional investment by the private sector.

In addition, the government is injecting \$50 million into the Business Development Bank. This equity will in turn allow the bank to provide an additional \$350 million in loans to knowledge-based, exporting and growth businesses that would not otherwise have access to the commercial banks.

The Minister of Industry will also accelerate the effort to bring the benefits of information technology to the whole country.

By 1998, through SchoolNet we will have connected every school and library in the country to the Information Highway.

By that same year, 1,000 rural communities will also be connected – through the Community Access Program.

And in order to bring to small business the advantages of access to the Information Highway, we are instituting a program in which 2,000 computer students will connect some 50,000 small businesses to the Internet – not only installing those systems, but advising their owners on how best to use them.

Our financial institutions have a key role to play in facilitating the growth of Canadian business. Over the past year, the banks have made progress in dealing with the concerns of small business. But more needs to be done to ensure our financial institutions provide the best possible financing for growing export and knowledge-based businesses. The government will work with business and all financial institutions, including the banks and insurance companies, to ensure that progress continues.

Finally, we are currently reviewing the legislation governing financial institutions with a view to improving the framework established in 1992. We have concluded that the financial sector has yet to fully adjust to this framework. Therefore, the present restriction on banks selling insurance will be maintained. The present framework for selling insurance through agents and brokers will be preserved. The white paper covering this and all other aspects still under review will be released in the coming weeks.

Let me conclude this section on the question of trade. There is no doubt that Canada's trade performance has been extraordinarily good. The export sector has been the fastest growing sector of our economy – expanding at an average 8 per cent per year over the past decade. Our merchandise trade balance has soared – reaching a record surplus of \$28.3 billion. And as a share of the economy, our current account deficit is at its lowest level in ten years.

Trade will continue to be a major thrust of this government's economic policy. The Team Canada approach, established by the Prime Minister, has proven to be a major success and will remain a centrepiece of our strategy. The Minister of International Trade will continue our determined drive to secure new agreements for more open markets around the world, building on the exemplary work of his predecessor, the Honourable Roy MacLaren.

Export financing is critical to ensure that Canadian companies can fully realize the opportunities before it. And so, in this budget we are providing \$50 million of new equity to the Export Development Corporation in order to support new export sales financing vehicles and new partnerships with exporters in the commercial banks. In addition, we are reallocating resources from subsidized loans for foreign borrowers to non-subsidized loans under an improved system to manage risk. This measure will increase the amount of financing available for Canadian exporters by as much as \$500 million per year.

These investments – in youth, in technology, in trade – build on the framework we have been constructing from the outset – a framework for a more productive economy and society – based on fiscal health, successful social programs and a government that is focused on key national priorities. They are a step forward in our plan to ensure that the Canadian economy adapts and grows, creating jobs.



## **Revenues – Improving Tax Effectiveness and Fairness**

Let me now come to the question of revenues.

No one is ever happy with the tax system. For this reason, we must do everything we can to ensure that it is fair – and that the system as a whole is as effective as possible. Taxes are clearly higher than any of us would like. But the issue is not simply one of rates. We must ensure that the system is supportive of the nation's goals.

To this end, the budget announces the following additional revenue measures. The revenue we realize from many of these measures is being reallocated to provide tax incentives that will assist students, help the infirm and support charities.

Let me begin with the provision of tax assistance to encourage Canadians to save for their own retirement, through RRSPs and RPPs.

We are proposing a number of changes that will better target this assistance to modest- and middle-income Canadians, while limiting the cost to taxpayers.

First, we know that many younger Canadians have a difficult time finding the money to make full RRSP contributions. This is often due to other pressing obligations, including education or raising a family. We want to give them the maximum opportunity later in life to help make up for that lost time.

Therefore, we will allow Canadians unlimited time to make up for any years when they were unable to make their full contribution by eliminating the current seven year limit on carrying forward any unused contribution room.

Second, the contribution limit for RRSPs is being frozen at its current level – \$13,500 – until the year 2003. The limit will then increase to \$15,500 by 2005.

Third, we are reducing the age limit for contributing to RPPs and RRSPs from 71 to 69.

In order to improve the effectiveness and fairness of the tax system, a number of additional measures are being announced.

In order to see them established, the government put in place incentives for investment in labour-sponsored venture capital corporations (LSVCCs). These incentives have worked. These funds are now very well established. Therefore, we are proposing several measures to reduce the unique incentives in place for these funds.

Next, this budget proposes a variety of measures related to the resource sector. In relation to the oil, gas and mining industries, we are clarifying and tightening rules related to the resource allowance, following the review announced in our last budget. While revenue neutral, this will result in a more consistent and stable tax structure.

We are announcing changes to the accelerated cost allowance rules for new mines, including oil sands, so that all types of oil sands recovery projects are treated more consistently.

For mining flow-through shares, the current 60 day rule is being extended to one year, while the eligibility rules for these shares are being tightened for the mining and oil and gas sectors.

We believe that environmental health and economic development should be complimentary, not contradictory, concepts.

To that end, this budget announces income tax changes that will provide an essentially level playing field between certain renewable and non-renewable energy investments. This is part of the baseline study of possible barriers and disincentives to sound environmental practices, initiated in the 1994 budget.

One measure is to create a new Canadian Renewable Energy and Conservation Expenses category in the tax system. A second measure is to extend the use of flow-through share financing, currently available for non-renewable energy and mining – to similar costs for certain renewable energy and energy conservation projects.

A temporary tax on large deposit taking institutions, including the banks, was introduced in last year's budget. It will be extended for a further year.

Finally, an effective business tax system should not only raise revenue. It should be designed to help create jobs. We believe it is time for a comprehensive look at this issue. In order to identify any obstacles to job creation currently contained in the tax act and to suggest reform, we are announcing today the establishment of a technical committee of outside experts that will report to me later this year, to be followed by public consultations. If the creation of secure jobs is our objective, then every effort of government must be directed towards that end.

## **Conclusion**

That concludes our description of the measures contained in this budget.

Every one of these is targeted towards a specific set of goals.

They reflect our desire to put in place the strongest economic framework possible for sustained growth and jobs.

They act on our obligation to preserve our great social programs for the next century – programs such as Medicare and our pension system.

They are designed to help provide the next generation with confidence in the new economy – by investing in our youth, in technology, in trade.

We spoke at the outset about the anxieties that grip our country. This budget is about doing what we can to help Canadians put those anxieties to rest.

But let us be clear. A budget is only a small part of the answer.

The full response lies in recognizing where we are in the evolution of the country, in the evolution of the world beyond our borders.

It is time to turn the page.

Because the fact is that success for countries is no different than success for families or communities or individual citizens. It is based, above all, on one thing: the constant setting of goals and the meeting of new challenges. Successful countries do more than occupy a place on the map. They live in the soul of their people – because they are relevant to the betterment of their lives.

And so, for Canada, it is time to set goals anchored in our shared values and aspirations.

We have done that throughout our history – in the days when we dared speak of a national dream – and then built it; in the days when we aspired to a kinder society – and then created it.

Now, it is time to move forward again – to arrive not simply at a common understanding of what we are – but a common vision of what we can be. Our challenge today is to make Canada a place of great expectations, a country once again where our children believe they have the opportunity to do better than their parents, a place where they can dream large dreams once more.

We must set great national challenges, not small ones – because it is only by reaching as high as we are able that we will discover how far we can go.

Why can we not decide together that ten years hence, Canada will be regarded as the world leader in the new industries of the new economy – in bio-technology, in environmental technology, in the cultural industries of the multi-channel universe?

Why not decide together that ten years hence increasing child poverty rates will be a thing of the past, that illiteracy will be erased from our communities and that when it comes to international tests, our students will not simply do fine – but in fact be the very finest?

Why can we not decide together that Medicare ten years hence, will not simply survive, but be the most successful system in the world, with a record on prevention, care and cure that is second to none?

Why not decide together that ten years hence our streets will be the safest they can be – not because we have the largest number of prisons or police, but rather because we have faced squarely the sources of crime?

These are challenges all of us must meet. They do not belong to any one of us alone. They do belong to all of us together.



If we want to open new doors for our children, there is literally nothing standing in our way.

We are a society that mirrors the diversity of an entire planet. We are already building on a great foundation. Now it is time to draw on that foundation, to write a new history ourselves.

Let us act, not as special interests, but as stewards of the national interest – knowing that the destiny of our children is in our hands.

Let us follow in the footsteps of those who came before, who saw challenge as a rallying cry to move forward, never as an excuse to give up.

And let it be said by those who come after us, that we set the goals, that we met them together, that we propelled Canada forward into a new millennium – still and always among the front ranks of nations.

**Summary statement of transactions:**  
**Fiscal outlook with budget measures**

	1993-94	1994-95	1995-96	1996-97	1997-98
	(billions of dollars)				
Budgetary revenues	116.0	123.3	130.6	135.0	141.0
Program spending	-120.0	-118.7	-113.8	-109.0	-106.0
Operating balance	-4.0	4.6	16.8	26.0	35.0
Public debt charges	-38.0	-42.0	-47.0	-47.8	-49.0
Underlying deficit	-42.0	-37.5	-30.2	-21.8	-14.0
Contingency reserve			-2.5	-2.5	-3.0
Deficit	-42.0	-37.5	-32.7	-24.3	-17.0
Non-budgetary transactions	12.2	11.6	12.7	10.6	11.0
Financial requirements	-29.8	-25.8	-20.0	-13.7	-6.0
Net public debt	508.2	545.7	578.4	602.7	619.7
GDP (calendar year)	712.9	750.1	780.0	806.0	841.0
Per cent of GDP					
Revenues	16.3	16.4	16.7	16.7	16.8
Program spending	-16.8	-15.8	-14.6	-13.5	-12.6
Deficit	-5.9	-5.0	-4.2	-3.0	-2.0
Financial requirements	-4.2	-3.4	-2.6	-1.7	-0.7
Net public debt	71.3	72.8	74.2	74.8	73.7

## Direct budget savings

	1994-95	1995-96	1996-97	1997-98	1998-99	Cumulative effect on net debt
	(billions of dollars)					
1994 budget	1.5	8.0	10.9	11.9	12.6	44.9
1995 budget		5.0	10.6	13.3	13.8	42.7
Total	1.5	13.0	21.5	25.2	26.4	87.6
1995 Employment Insurance reform <sup>1</sup>				0.7	0.8	1.5
1996 budget			0.0	0.2	1.7	1.9
Total	1.5	13.0	21.5	26.1	28.9	91.0
of which:						
Expenditures	0.7	10.6	18.9	23.3	25.6	79.0
Revenues	0.8	2.4	2.6	2.8	3.4	12.0

<sup>1</sup> Savings for 1996-97 were included in 1995 budget savings.

Note: Table shows net savings from deficits that would have otherwise occurred in the absence of direct measures in the budgets. Numbers may not add due to rounding.

## ***The revenue outlook***

	1993-94	1994-95	1995-96	1996-97	1997-98
	(billions of dollars)				
Personal income tax	51.4	56.3	60.5	63.5	67.2
Corporate income tax	9.4	11.6	14.4	15.1	16.0
Employment Insurance contributions	18.2	18.9	18.5	18.8	19.5
Excise taxes and duties					
Goods and Services Tax	15.7	16.8	17.2	17.9	18.7
Customs import duties	3.7	3.6	3.0	2.8	2.5
Other excise taxes	7.3	6.7	7.3	7.6	7.7
Other tax revenues	1.6	1.8	1.9	1.9	2.0
Total tax revenues	107.3	115.7	122.8	127.6	133.6
Non-tax revenues	8.7	7.6	7.8	7.4	7.4
Total budgetary revenues	116.0	123.3	130.6	135.0	141.0
Per cent of GDP	16.3	16.4	16.7	16.7	16.8



## ***The outlook for program spending***

	1994-95	1995-96	1996-97	1997-98	1998-99
	(billions of dollars)				
Major transfers to persons					
Elderly benefits	20.5	21.2	21.9	22.8	23.8
Employment insurance	14.8	13.5	13.8	14.2	14.5
Total	35.3	34.7	35.7	37.0	38.3
Major transfers to other levels of government <sup>1</sup>					
EPF/CAP — CHST	18.8	18.5	15.0	12.5	11.8
Equalization	8.5	8.7	8.8	9.2	9.6
Transfers to territories	1.2	1.2	1.1	1.1	1.1
Other fiscal transfers	0.0	0.1	0.0	0.0	0.0
Alternative payments for standing programs	-1.8	-1.9	-2.0	-2.1	-2.2
Total	26.7	26.6	23.0	20.6	20.2
Subsidies and other transfers					
Business subsidies	3.7	2.9	2.0	1.6	1.5
Indians and Inuit	3.7	4.0	4.3	4.3	4.4
International assistance	2.9	2.2	2.2	2.1	1.9
Science and Technology	1.0	0.9	0.9	0.8	0.8
Canada Infrastructure Works	0.4	0.9	0.5	0.1	0.0
Other	8.3	6.6	5.7	5.1	4.6
Total	20.0	17.6	15.5	14.0	13.3
Crown corporations	5.0	4.4	4.2	3.9	3.8
Defence	10.7	10.3	9.8	9.1	8.5
All other spending	21.0	20.1	20.8	21.4	21.4
Program spending	118.7	113.8	109.0	106.0	105.5
<sup>1</sup> Through to 1995-96 includes Established Programs Financing (EPF) and Canada Assistance Plan (CAP). Beginning in 1996-97, refers to the Canada Health and Social Transfer (CHST).					
Total entitlements under the EPF/CAP and CHST	29.4	29.7	26.9	25.1	25.1
Total entitlements for major transfers to other levels of government (CHST, Equalization and transfers to the Territories)	38.3	38.8	36.0	34.4	34.8





